

Message Text

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ACTION NEA-12

INFO OCT-01 ADP-00 EB-11 FS-01 ABF-01 AID-20 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 PM-07 L-03

H-03 IGA-02 FBO-01 SR-02 ORM-03 IO-13 SCA-01 OS-03

SSO-00 NSCE-00 INRE-00 NEAE-00 CIAE-00 INR-10 NSAE-00

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FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC IMMEDIATE 6382

C O N F I D E N T I A L NEW DELHI 9901

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJECT: RUPEE DISCUSSIONS

SUMMARY: I MET AUGUST 24 WITH M. G. KAUL TO HAND OVER A US REVISION OF THE GOI DRAFT AGREEMENT ON RUPEES. I EMPHASIZED THAT THE AGREEMENT WAS SUBMITTED AD REFERENDUM. THE MEETING WENT WELL. MAJOR DISCUSSION CENTERED ON THE FOLLOWING UNRESOLVED ISSUES: MAINTENANCE OF VALUE, US AID TO NEPAL, CONVERSIONS, AND POSSIBLE FINANCING OF INDIAN ECONOMIC DEVELOPMENT FROM RETAINED US USES. I ALSO HANDED HIM A LETTER ON SURPLUS PROPERTY. TEXTS OF US DRAFT AGREEMENT AND SURPLUS PROPERTY LETTER BEING POUCHED. END SUMMARY.

1. I MET THIS AFTERNOON WITH M. G. KAUL TO HAND OVER THE US REVISION OF THE GOI DRAFT AGREEMENT ON RUPEES GIVEN TO US EARLIER THIS MONTH. I EMPHASIZED IN MY OPENING COMMENTS THAT WE SEEMED TO BE THREE-FOURTHS OF THE WAY TOWARDS AN AGREEMENT. I SUMMARIZED THE MAIN POINTS OF THE US REVISED DRAFT, POINTING OUT THAT EVERYTHING IS SUBMITTED AD REFERENDUM. I AM POUCHING A COPY OF THE DRAFT AGREEMENT I HANDED OVER THIS AFTERNOON.

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2. FOLLOWING ARE HIGH POINTS OF THE DISCUSSION:

A. USE OF PL 480 RUPEES GRANTED TO GOI: I SAID THESE RUPEES MUST BE EXPENDED WITH REASONABLE PROMPTNESS FOR DESIGNATED ECONOMIC DEVELOPMENT PURPOSES IN INDIA. KAUL ACCEPTED THIS.

B. CONVERSIONS: I SAID THE GOI PAYS ITS BILLS AND THAT I KNOW IT WILL MEET ALL PAST, PRESENT AND FUTURE CONVERSION OBLIGATIONS. KAUL AGREED, BUT SUGGESTED A STRETCH-OUT TO TEN YEARS. AFTER THIS I SAID THAT TO SELL THIS AGREEMENT TO THE CONGRESS, I MUST HAVE AN INCREASE IN THE PERCENTAGE OF CONVERSIONS FOR AGRICULTUREAL MARKETING DEVELOPMENT FROM TWO TO FIVE PERCENT. KAUL ARGUED FOR THREE PERCENT AND FOR WAIVER OF CONVERSION OBLIGATION OF INTEREST ON PREPAID DEBT. I SAID THIS MIGHT BE OPEN TO DISCUSSION AND THAT IT MIGHT BE POSSIBLE IF GOI AGREES TO US POSITIONS ON MAINTENANCE OF VALUE AND AID TO NEPAL SET OUT BELOW.

C. USES OF RETAINED RUPEES: WITH RESPECT TO THE "DOLLAR LOAN RUPEES" RETAINED BY US, I SAID THAT 1) WE AGREED TO MAINTAIN EXISTING ARRANGEMENTS UNDER WHICH THE US FURNISHES INDIA WITH ANNUAL ESTIMATES OF AN OVERALL LEVEL OF CONTEMPLATED EXPENDITURES; 2) WE WILL INSURE THAT FUTURE EXPENDITURES DO NOT CHANGE MUCH IN AMOUNT AND PURPOSE FROM ESTABLISHED USES (PRICE CHANGES APART); 3) THE GOI WOULD HAVE AN ABSOLUTE VETO OVER ANY CONTEMPLATED EXPENDITURES ON MIGRATION AND REFUGEE ASSISTANCE AND CONTRIBUTIONS TO INTERNATIONAL ORGANIZATIONS; 4) NEW USES OR USES WHICH INCREASE TOTAL EXPENDITURES APPRECIABLY WOULD BE SUBJECT TO APPROVAL OF THE GOI; AND 5) MUTUAL AGREEMENT WOULD BE REQUIRED FOR US PURCHASES FOR EXPORT OF INDIAN GOODS AND SERVICES ON 75/25 BASIS

D. NEPAL: I SAID OUR AGREEMENT PROPOSED A LIMIT OF DOLS 8 MILLION A YEAR AND A MAXIMUM OF TEN YEARS TO HELP FINANCE THE AMERICAN AID PROGRAM IN NEPAL. KAUL SAID THAT THE NEPALESE PROBLEM WAS POLITICALLY THE MOST DIFFICULT POINT FOR INDIA, WHICH HAD ALREADY BEEN DISCUSSED AT THE HIGHEST LEVELS. (MADAM) HE SAID EXTENSION BEYOND ONE YEAR WOULD CAUSE A DEFINITE PROBLEM FOR INDIA, AND URGED THAT WE NOT PRESS THIS. I REPLIED THAT WE ARE GOING TO TAKE A LOT OF HEAT OVER THE RUPEE SETTLEMENT AND THAT THE GOI, WITH A TWO THIRDS TO THREE-FOURTHS MAJORITY IN THE PARLIAMENT CAN AFFORD TO TAKE A LITTLE CONFIDENTIAL

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HEAT AS WELL. I INSISTED THAT THIS IS THE TYPE OF CONCESSION WE HAVE TO HAVE IN ORDER TO SELL THIS PACKAGE TO THE CONGRESS. KAUL AGREED TO TAKE IT TO GOVERNMENT. I DID INDICATE THE POSSIBILITY OF A COMPROMISE OF LESS THAN TEN YEARS, AND TENTATIVELY SUGGESTED FIVE YEARS.

E. MAINTENANCE OF VALUE: KAUL AGAIN MADE A STRONG PLEA FOR THEUS TO GIVE UP ITS REQUEST FOR MOV. I POINTED OUT THAT AS

PART OF AN AGREEMENT IN WHICH WE ARE GIVING AWAY DOLS 5 BILLION, WE SIMPLY HAVE TO HAVE SOME ASSURANCE TO GIVE TO THE CONGRESS THAT WHAT WE RETAIN WILL BE WORTH SOMETHING. I POINTED OUT THAT I HAD FOUGHT OFF WASHINGTON REQUESTS FOR A PRICE ESCALATOR CLAUSE AND THAT THE MOV PROVISION WAS ALREADY A SECOND BEST FROM WASHINGTON'S POINT OF VIEW. KAU CARRIED ON FURTHER ABOUT THIS, BUT IN THE END AGREED TO TAKE THIS TO GOVERNMENT ALSO.

F. EXPENDITURES FOR INDIAN ECONOMIC DEVELOPMENT FROM US RETAINED RUPEES: KAUL MADE A STRONG PITCH THAT THE US AGREE TO ALLOCATE A PORTION OF THE RUPEES WE RETAIN FOR ECONOMIC DEVELOPMENT PURPOSES IN INDIA. I POINTED OUT THAT WE WILL HAVE ALREADY EXPLAINED TO THE CONGRESS THAT OUR PRESENT HOLDINGS OF RUPEES HAVE BEEN DIVIDED INTO ONE BIG PART FOR INDIA (OUR PL 480 RUPEES) AND SMALLER PART FOR THE US (DOLLAR LOAN RUPEES). ANY INKLING THAT THE US-USES PORTION MIGHT BE SIMILARLY SPLIT WOULD BE CERTAIN TO CAUSE IMMEDIATE CONGRESSIONAL PROBLEMS. I ALSO POINTED OUT THAT SHLD THERE BE FUTURE REQUESTS FOR DOLLAR ASSISTANCE TO INDIA, THE CONGRESS MIGHT VERY WELL BE TEMPTED TO SUBSTITUTE US OWNED RUPEES. I DID AGREE THAT IF AT SOME FUTURE TIME OUR US USES RUPEE HOLDINGS WERE EXCESSIVE IN THE TERMS OF THE SPIRIT OF THIS AGREEMENT, WE MIGHT CONSIDER RECOMMENDING TO THE CONGRESS APPROPRIATION OF SOME OF THESE FUNDS FOR WORTHWILE ECONOMIC DEVELOPMENT PROGRAMS IN INDIA. KAUL BADGERED ME FOR A FORMAL EXPRESSION OF INTENT WHICH I AGREED TO FURNISH HIM AD REFERENDUM.

G. AMERICAN EMBASSY SCHOOL: I SAID THAT THE US WOULD ALSO LIKE TO USE SOME OF ITS RETAINED RUPEE HOLDINGS TO FINANCE CERTAIN RUPEE COSTS OF FINANCING THE AMERICAN EMBASSY SCHOOL IN NEW DELHI. KAUL SAID HE SAW NO PROBLEM WITH THIS.

H. SURPLUS PROPERTY: LASTLY I HANDED OVER TO KAUL A LETTER
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Message Attributes

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To: STATE
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